

**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2010**



**ADAM H. EDELEN
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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jimmy Sizemore, Leslie County Judge/Executive
The Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, presents the financial statement of revenues, expenditures, and excess fees - regulatory basis of the Leslie County Sheriff for the year ended December 31, 2010.

We engaged Morgan-Franklin, LLC to perform the audit of this financial statement. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated the Leslie County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen".

Adam H. Edelen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LESLIE COUNTY SHERIFF

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the Leslie County Sheriff's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

There were no excess fees reported for the years ended December 31, 2008 and 2009. Revenues decreased by \$27,362 from the prior year and expenditures decreased by \$49,710. Excess fees for 2010 were \$10,073.

Report Comments:

- | | |
|---------|--|
| 2010-01 | The Sheriff's Office Lacks Adequate Controls Over Cell Phone Usage |
| 2010-02 | The Sheriff Should Not Spend Fee Monies On Disallowed Expenditures And Should Not Commingle Donation, Forfeiture, And Fee Account Monies |
| 2010-03 | The Sheriff Does Not Have Adequate Controls Over Revenues |
| 2010-04 | The Sheriff Should Comply With KRS 68.210 By Strengthening Internal Controls Over Disbursements |
| 2010-05 | The Sheriff's Office Lacks Adequate Segregation of Duties |
| 2010-06 | All Employee Timesheets Should Have A Supervisor's Signature |
| 2010-07 | The Sheriff Should Properly Account For Donations |
| 2010-08 | The Sheriff Paid Employees \$9,200 In Bonuses At The End Of 2010 |
| 2010-09 | The Sheriff Should Not Expend Monies From Any Fund Except In Accordance With His Approved Budget |
| 2010-10 | The Sheriff Should Settle His Fee Accounts For All Prior Years |
| 2010-11 | The Sheriff Should Properly Account For Federal Forfeiture Funds By Accounting For Receipts And Expenditures |
| 2010-12 | The Sheriff Should Not Dispose Of Seized Property Until Awarded By The Court |

Deposits:

The Sheriff's deposits as of December 31, 2010 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$805,885

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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The Honorable Jimmy Sizemore, Leslie County Judge/Executive
The Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Leslie County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the financial statement referred to in the first paragraph. The schedule of fund balance is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

The Honorable Jimmy Sizemore, Leslie County Judge/Executive
The Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2011 on our consideration of the Leslie County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2010-01 The Sheriff's Office Lacks Adequate Controls Over Cell Phone Usage
- 2010-02 The Sheriff Should Not Spend Fee Monies On Disallowed Expenditures And Should Not Commingle Donation, Forfeiture, And Fee Account Monies
- 2010-03 The Sheriff Does Not Have Adequate Controls Over Revenues
- 2010-04 The Sheriff Should Comply With KRS 68.210 By Strengthening Internal Controls Over Disbursements
- 2010-05 The Sheriff's Office Lacks Adequate Segregation of Duties
- 2010-06 All Employee Timesheets Should Have A Supervisor's Signature
- 2010-07 The Sheriff Should Properly Account For Donations
- 2010-08 The Sheriff Paid Employees \$9,200 In Bonuses At The End Of 2010
- 2010-09 The Sheriff Should Not Expend Monies From Any Fund Except In Accordance With His Approved Budget
- 2010-10 The Sheriff Should Settle His Fee Accounts For All Prior Years
- 2010-11 The Sheriff Should Properly Account For Federal Forfeiture Funds By Accounting For Receipts And Expenditures
- 2010-12 The Sheriff Should Not Dispose Of Seized Property Until Awarded By The Court

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Leslie County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

December 16, 2011

LESLIE COUNTY
PAUL HOWARD, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

Federal Grants	\$	11,645
Federal Forfeitures		4,159
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		9,747
Camp Donations		6,930
State Fees For Services:		
Finance and Administration Cabinet	\$	9,797
Telecommunications Tax	<u>3,074</u>	12,871
Circuit Court Clerk:		
Fines and Fees Collected		1,670
Fiscal Court		44,128
County Clerk - Delinquent Taxes		18,884
Commission On Taxes Collected		185,831
Fees Collected For Services:		
Auto Inspections	432	
Accident and Police Reports	307	
Administrative Fee	3,320	
Carrying Concealed Deadly Weapon Permits	3,345	
Copying	92	
Mental Transport	1,416	
Serving Papers	<u>17,261</u>	26,173
Other:		
Add-On Fees Collected on Taxes		21,075
Borrowed Money:		
State Advancement		<u>67,200</u>
Total Revenues		410,313

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
 PAUL HOWARD, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 193,811

KLEFPF 5,526

Employee Benefits-

KLEFPF Training 5,144

Contracted Services-

Contracted Services 3,783

Vehicle Maintenance and Repairs 16,671

Materials and Supplies-

Office Materials and Supplies 5,114

Other Charges-

Cell Phones 4,790

Camp Expenditures 6,959

Data Entry 1,952

Dues 150

Equipment 103

Uniforms 4,513

Postage 954

Courthouse Fees 2,830

Bank Service Charges 42

Miscellaneous 55

Capital Outlay-

Vehicles 5,000

Debt Service:

State Advancement 67,200

Total Expenditures \$ 324,597

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
 PAUL HOWARD, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Less: Disallowed Expenditures

Checks Written to Cash, Employees, or Purchase
 of GreenDot Cards Where Receipts Were Less Than
 the Amount of the Check

\$ 109

Expenditure – Adequate Documentation Not Maintained,
 Purchase of Cigarettes, And Flowers For Funerals

337

Bank Overdraft Fees

42

Camp Expenses in Excess of Revenues

29

\$ 517

Total Allowable Expenditures

324,080

Net Revenues

86,233

Less: Statutory Maximum

75,850

Excess Fees Due Fiscal Court for 2010

10,383

Payment to Fiscal Court - October 1, 2011

490

Balance Due Fiscal Court at Completion of Audit

\$ 9,893

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LESLIE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2010
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Leslie County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Leslie County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$805,885

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 4. Federal Grant

The Leslie County Sheriff's Department and the Leslie County Fiscal Court entered into a grant agreement with the U.S. Army Corp of Engineers for the period beginning May 1, 2010 and ending September 25, 2010. The purpose of the grant was to provide law enforcement services at Buckhorn Lake. The Sheriff received a total of \$11,645 for salary reimbursements.

Note 5. Donation

The Sheriff received \$6,930 in donations from various local businesses for use during the Drug Awareness Camp. In November 2010 the Sheriff established a separate bank account for these donations with a deposit of \$1,500. Prior to November, camp donations of \$6,930 and related expenditures of \$6,959 were included in the fee account. This activity is included in the financial statement with expenditures exceeding donations by \$29. The balance in this account as of December 31, 2010 was \$1,500.

Note 6. Related Party Transactions

A member of the Sheriff's family stuffs envelopes and cleans the Sheriff's Office and was paid \$2,200 during the 2010 calendar year.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
SCHEDULE OF FUND BALANCE - REGULATORY BASIS

December 31, 2010

Assets

Cash in Bank		\$	3,318
Deposits in Transit			80,377
Receivables:			
Collected			37,770
Uncollected:			
Due To 2010 Fee For 2009 Expenditures Paid From 2010 Fees	\$	454	
Due To 2010 Fee For 2009 Expenditures Paid From 2010 Fees		1,343	
Due To 2010 Fee For 2009 Expenditures Paid From 2010 Fees		100	
Due To 2010 Fee Account For Reimbursement Of 2009 Payroll		2,627	
Due To 2010 Fee Account For Reimbursement Of 2009 Payroll		9,100	
Due From Sheriff For Disallowed Expenses		208	13,832
			<hr/>
Total Assets			135,297

Liabilities

Paid Obligations:			
Outstanding Checks		127	
Paid Liabilities		120,245	120,372
		<hr/>	
Unpaid Obligations:			
Due To 2009 Fee Account - Telecommunication Tax (December)		256	
Due To 2011 Fee - Telecommunications Tax (February and March 11)		512	
Due To 2011 For 2010 Expenditures Paid From 2011 Fees		210	
Due To 2011 For 2010 Expenditures Paid From 2011 Fees		300	
Due To 2011 Fee Account For 2010 Payroll		3,754	5,032
		<hr/>	<hr/>
Total Liabilities			125,404
			<hr/>
Total Fund Balance as of December 31, 2010 - Due As Excess Fees To Fiscal Court		\$	9,893
			<hr/>

The accompanying notes are an integral part of this financial statement.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Jimmy Sizemore, Leslie County Judge/Executive
The Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Leslie County Sheriff for the year ended December 31, 2010, and have issued our report thereon dated December 16, 2011. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Leslie County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Leslie County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2010-03 through 2010-06, to be material weaknesses.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2010-01 and 2010-02 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Leslie County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2010-07 through 2010-12.

The Leslie County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Leslie County Fiscal Court and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

December 16, 2011

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2010

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES:

2010-01 The Sheriff's Office Lacks Adequate Controls Over Cell Phone Usage

Condition: During the test of expenditures, we noted the Sheriff's office provides a cell phone for the sheriff's wife who is also the part-time office manager/bookkeeper. The November cell phone payment, which was haphazardly chosen for testing, included four (4) cell phones totaling \$242 with \$159 being charged to the part-time office manager/bookkeeper.

The phone that was provided to the part-time office manager/bookkeeper received the most additional charges, \$58 during November. These charges included answer tones, push-to-talk, data unlimited with navigator, text and picture messaging, and three monthly subscriptions for text messaging in the amount of \$10 and two Flycell Downloads in the amount of \$10 each.

Criteria: Per Funk vs. Milliken, 317 S.W.2d 499 (KY. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses.

Cause: Failure to monitor cell phone use.

Effect: Excessive expenditures for cell phones.

Recommendation: We recommend that the Sheriff adequately document all cell phone expenditures by including the entire monthly statement and the call detail for each cell phone. Since we are questioning the reasonableness of the cell phone charges for the part time employee, we are referring this finding to the Fiscal Court and County Attorney to determine if these expenditures are a necessary expense of the Sheriff's office. We recommend they determine if the part-time employee of the Sheriff's Office should have a cell phone and if these additional charges are reasonable and necessary expenses of the Sheriff's Department. If cell phone charges are ultimately deemed unnecessary, they will become a disallowed expense subject to personal payment by the Sheriff as excess fees to the Fiscal Court.

Sheriff's Response: No Response.

Judge Executive's Response: No Response.

LESLIE COUNTY
 PAUL HOWARD, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2010
 (Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES (Continued):

2010-02 The Sheriff Should Not Spend Fee Monies On Disallowed Expenditures And Should
Not Commingle Donation, Forfeiture, And Fee Account Monies

Condition: During the audit, auditors noted the following instances where the Sheriff spent monies on disallowed expenditures:

Checks Written to Cash, Employees, or Purchase of GreenDot Cards Where Receipts Were Less Than the Amount of the Check	\$	109
Expenditure – Adequate Documentation Not Maintained, Purchase of Cigarettes, And Flowers For Funerals		337
Bank Overdraft Fees		42
Camp Expenses in Excess of Revenues		<u>29</u>
Total Disallowed Expenditures	\$	517
Less: Payments Made on Disallowed Exp.		
Expenditure – Adequate Documentation Not Maintained, Purchase of Cigarettes, And Flowers For Funerals	\$	267
Bank Overdraft Fees		<u>42</u>
Total Payments on Disallowed Expenditures		<u>309</u>
Total Disallowed Exp. As Of December 16, 2011	\$	<u><u>208</u></u>

Criteria: In Funk vs. Milliken, 317 S.W.2d 499 (KY. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses. Additionally, KRS 134.160 and KRS 68.210, requires the Sheriff to comply with the uniform system of accounts. Expenditures that do not comply with statutes are subject to being disallowed.

Cause: The Sheriff does not have adequate internal control policies in place in order to prevent payments on disallowed expenditures. The Sheriff commingled funds, didn't keep track of revenues and expenditures and this, in turn, allowed for the expenditure of funds in excess of revenues for the forfeiture and camp disbursements.

Effect: Disallowed expenditures in the amount of \$517.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES (Continued):

2010-02 The Sheriff Should Not Spend Fee Monies On Disallowed Expenditures and Should Not Commingle Donation, Forfeiture, And Fee Account Monies (Continued)

Recommendation: We recommend that the Sheriff implement proper internal controls in order to prevent payments on disallowed expenditures in the future. We also recommend that the Sheriff not commingle funds in the future. Separate bank accounts should be maintained for receipts and expenditures of forfeiture and camp donations.

Sheriff's Response: These charges have been reimbursed to Fee Account.

Auditors' Response: As of December 16, 2011, the only reimbursements for disallowed expenditures were the ones noted on the previous page.

INTERNAL CONTROL – MATERIAL WEAKNESSES

2010-03 The Sheriff Does Not Have Adequate Controls Over Revenues

Condition: During our receipt testing we noted the following:

- During the month of November two receipt books were utilized.
- All copies of voided receipts were not kept.

Criteria: Pre-numbered receipts should be used in sequential order. The same receipt book should be used until all receipts in the book have been used. Also it is a good policy to keep all copies of voided receipts.

Cause: Lack of internal controls over revenues.

Effect: Misappropriation of receipts could occur and not be corrected or detected in a timely manner.

Recommendation: We recommend the Sheriff strengthen the internal controls of his office by having office staff utilize one receipt book, issue triplicate receipts in numerical order, and keep all copies of voided receipts.

Sheriff's response: We will comply.

LESLIE COUNTY
 PAUL HOWARD, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2010
 (Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES (Continued):

2010-04 The Sheriff Should Comply With KRS 68.210 By Strengthening Internal Controls Over Disbursements

Condition: During the test of operating disbursements we tested 13 expenditures and during the test of other disbursements we tested 15 expenditures. Other disbursements include unusual items, checks written to cash, employees, or Hyden Citizens Bank. We noted the following discrepancies:

- For all disbursements tested it appeared that for the first three months of the year the Sheriff's Office utilized counter checks.
- We also noted that checks did not have dual signatures.

Operating Disbursements:

- One instance where an invoice should have been paid from the 2009 fee account.
- One instance where an invoice could not be found.
- One instance where there was no date on the check.

Other Disbursements:

- Three instances where an invoice was not found. Subsequently, one invoice was found and, another one the clerk had faxed from the company.
- Five instances where proper documentation was not kept when employees were being reimbursed for fuel. In some instances employees of the Sheriff's Office are required to drive their personal vehicles while performing duties of the Sheriff's Office. Employees are only required to present receipts for fuel purchases with no indication of miles traveled on behalf of the Sheriff's office. For instance, the employee may drive ten miles and be reimbursed for fuel in the amount of \$40. It appears that some fuel costs could be for personal use.
- Two instances where the Sheriff's Office purchased flowers for a funeral.
- Five instances where checks written to cash, employees, or utilized to purchase GreenDot Cards were for more than the actual purchases, leaving balances due back to the Sheriff's Office of \$109. (\$3+\$21+\$2+\$1+\$82)
- One instance where a \$300 check written to cash was coded to camp and vehicle expenses. There was no way to determine what receipts were for camp and what receipts were for vehicle expenses. One of the receipts for this check included the purchase of two packs of cigarettes totaling \$9, including tax of \$1.

Criteria:

- The Sheriff should ensure that checks are prenumbered and counter checks are never utilized.
- The Sheriff should require that all checks have dual signatures.
- Procedures should ensure that the Sheriff's Office receives the most advantageous prices for services performed.

LESLIE COUNTY
 PAUL HOWARD, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2010
 (Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES (Continued)

2010-04 The Sheriff Should Comply With KRS 68.210 By Strengthening Internal Controls Over Disbursements (Continued)

- Commingling of fee account expenditures are prohibited.
- Adequate documentation should be maintained for all disbursements.
- Per the County's Administrative Code meal reimbursements should not exceed \$30 per day and the prevailing state rate per mile shall be paid if travel by personal vehicle is required. No expenses shall be reimbursed which are not directly related to job related purposes or other purposes directly related to county business. All travel by county employees must be approved in advance by the employee's supervisor or the County Judge/Executive. Meeting notices supporting travel shall be submitted with the travel request when available. A request for reimbursement form must be completed (including required receipts) and submitted to the County Judge/Executive within thirty days after returning from travel. The request for reimbursement form must be signed by the employee requesting reimbursement, the department director, and the County Judge/Executive.
- The purchase of flowers for funerals is considered unnecessary per Funk v. Milliken.
- The Kentucky Department for Local Government (DLG), pursuant to KRS 68.210 and section 3 of the Kentucky Constitution, prohibits the prepayment of goods and services, which includes writing checks for cash or purchasing GreenDot cards.
- When the Sheriff's Office writes a check to employees and there is a refund due back to the Sheriff's Office, this refund should be given immediately to the Sheriff's Office.

Cause:

- The Sheriff's lack of ordering checks timely.
- The Sheriff is not requiring dual signatures and requiring that proper documentation be maintained with each invoice.
- There is a lack of oversight over disbursements.
- By issuing a cash advance, the Sheriff prepaid for goods and/or services.
- Lack of adequate controls over disbursements.

Effect: The lack of proper accounting of disbursements allowed the Sheriff to expend fee monies for disallowed expenditures. The Sheriff is at risk for duplicate payments and purchases of items not intended for the Sheriff's office.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES (Continued)

2010-04 The Sheriff Should Comply With KRS 68.210 By Strengthening Internal Controls Over Disbursements (Continued)

Recommendation: We recommend the Sheriff comply with KRS 68.210 and the Kentucky Constitution by refraining from issuing cash advances, assuring that invoices are original and maintaining complete documentation of all disbursements. We further recommend the Sheriff strengthen the internal controls over disbursements by requiring two signatures on checks, requiring that each invoice is reviewed completely before payment is issued, and by effectively documenting and keeping invoices in a way that makes it easy to determine what was paid with each check. This is an effective way to ensure duplicate payments are not made. We also recommend that the Sheriff's review all invoices and sign off on these, validating the costs. The Sheriff should also follow the County's Administrative Code when reimbursing employees for travel.

Sheriff's Response: All Funds were deposited to cover these expenses.

Auditors' Response: As of December 16, 2011, the only reimbursements for disallowed expenditures were the ones noted in finding 2010-4.

2010-05 The Sheriff's Office Lacks Adequate Segregation Of Duties

Condition: The Sheriff's office lacks adequate segregation of duties since one employee, the part-time office manager/bookkeeper, is responsible for posting daily checkout sheets to the ledger, preparing and posting disbursements to the ledger, preparing monthly bank reconciliations and preparing quarterly reports. Additionally, the Sheriff did not require dual signatures on checks issued.

Criteria: A segregation of duties over accounting functions or implementation of strong compensating controls when limited by office staff is essential to providing protection from asset misappropriation and/or inaccurate reporting. The risk of misappropriation and/or human error increases when one individual is given complete authority over all accounting processes. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

Cause: Failure to segregate duties or implement compensating controls.

Effect: Misappropriation of assets or error could occur and not be detected in a timely manner.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES (Continued)

2010-05 The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

Recommendation: We recommend the Sheriff segregate duties or institute strong compensating controls including, but not limited to:

- The Sheriff should require two (2) signatures on all disbursement checks.
- The Sheriff should periodically recount and deposit cash receipts. This could be documented by initialing the daily checkout sheet and deposit ticket.
- An individual other than the bookkeeper should compare the daily checkout sheets and check register to the receipts and disbursements ledger for accuracy. This could be documented by the reviewer's initials on the ledgers.
- The Sheriff should receive the bank statements unopened and review the statements for any unusual items prior to giving them to the individual responsible for reconciliations.
- An individual other than the bookkeeper should reconcile bank records with another employee reviewing them for accuracy. The preparer and reviewer could document by initialing the reconciliation.
- The Sheriff should periodically review bank reconciliation and compare to the balance in the ledger. Any differences should be reconciled. This could be documented by his initials on the bank reconciliation and the ledger.
- The Sheriff should review monthly and quarterly reports for accuracy. This could be documented by his initials on the reports and ledgers.

Sheriff's Response: No Response.

2010-06 All Employee Timesheets Should Have A Supervisor's Signature

Condition: During our test of payroll, we noted that not all employees' timesheets have a supervisor's signature.

Criteria: Good internal controls over payroll include the signature and date of the supervisor on employee time sheets to indicate approval.

Cause: Lack of adequate controls over timesheets.

Effect: Supervisors may not be aware of the time charged by each employee.

Recommendation: The Sheriff or his designee should sign all timesheets.

Sheriff's Response: No Response.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

NONCOMPLIANCES

2010-07 The Sheriff Should Properly Account For Donations

Condition: The Sheriff did not properly account for donations solicited for a drug awareness youth camp. Rather than open a separate bank account, the Sheriff deposited the donations into his fee account. The Sheriff solicited and received \$6,930 in donations from local entities to be used for a drug awareness youth camp. A total of \$6,959 was expended for camp expenses resulting in \$29 excess of expenditures over receipts. Because the Sheriff did not separate donations from normal fee account activity and because he spent more than collected in donations, the Sheriff used fee monies for the camp.

Criteria: Kentucky Department for Local Government requires all donations received be deposited into a separate bank account and any unexpended funds will roll forward and not be included as excess fees paid to the fiscal court.

Cause: The Sheriff did not maintain a separate bank account for donations.

Effect: The Sheriff used \$29 of fee monies for the camp.

Recommendation: We recommend the Sheriff deposit future donations into a separate bank account and not expend more than is received for the donation. Furthermore, we recommend the Sheriff deposit personal funds of \$29 to replace expenditures improperly paid with 2010 fee account revenues.

Sheriff's Response: We now have separate accounts.

2010-08 The Sheriff Paid Employees \$9,200 In Bonuses At The End Of 2010

Condition: The Sheriff paid employees bonuses in the amount of \$9,200 on December 15, 2010. The sheriff's wife and part time bookkeeper received \$1,200 while other part time employees received \$800.

Criteria: According to the Department for Local Government's budget manual under section labeled "Handling Public Funds, Minimum Requirements Pursuant To KRS 68.210, for all Local Government Officials (And Employees)", bonuses, prepayment for goods or services, nor any other contributions are NOT an appropriate expense of the government unless the fee official has implemented an incentive program under the guidelines of the administrative code. However, there was no evidence that these payments were for any extra effort or extra duties performed by these employees. It appears that these payments may have been made as bonuses.

Cause: Management's disregard of KRS 68.210.

Effect: \$9,200 in additional excess fees could have been turned over to the fiscal court if bonuses were not paid to employees.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

NONCOMPLIANCES (Continued)

2010-08 The Sheriff Paid Employees \$9,200 In Bonuses At The End Of 2010 (Continued)

Recommendation: We recommend that the Sheriff's office discontinue this practice in order to be in compliance with the Department for Local Government's budget manual.

Sheriff's Response: We will comply.

Judge/Executive's Response: No response.

2010-09 The Sheriff Should Not Expend Monies From Any Fund Except In Accordance With His Approved Budget

Condition: The Sheriff over expended his budgeted amounts.

Criteria: No Sheriff shall expend any monies from any fund, except in accordance with a budget ordinance.

Cause: Lack of adequate internal controls over budgeting.

Effect: The Sheriff expended more on various line item expenditures than was budgeted.

Recommendation: The Sheriff should only expend monies in compliance with his budget and should amend the budget as deemed necessary.

Sheriff's Response: No Response.

2010-10 The Sheriff Should Settle His Fee Accounts For All Prior Years

Condition: During the 2010 fee audit, we followed up on prior year fee audit findings to determine whether the Sheriff had deposited all deficit amounts from personal funds. We obtained and reviewed bank statements for the 2007, 2008, and 2009 fee accounts. We noted the following:

- As of September 20, 2011 the 2007 Fee account had a balance of \$0. \$2 in additional interest was earned on this account since the audit was completed. This additional interest should be paid to the fiscal court. The 2007 Fee account accrued additional service charges of \$2. Since these additional charges were not accounted for when the 2007 fee audit was completed, we recommend the Sheriff pay back the service charges to the 2007 Fee account because these charges are an unallowable expense.

LESLIE COUNTY
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COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

NONCOMPLIANCES (Continued)

2010-10 The Sheriff Should Settle His Fee Accounts For All Prior Years (Continued)

- As of June 30, 2011, the Sheriff's 2008 fee account had a \$0 balance, however, deposits, including interest into and withdraws from this account have occurred since the audit was completed. The sheriff has deposited \$651 of personal funds and \$150 from the 2008-2009 tax account to eliminate a portion of the reported 2008 deficit of \$8,680. The Sheriff expended an additional \$41 for service charges and web site expenses. Since these additional expenditures and receipts were not accounted for when the 2008 audit was completed, the known deficit decreased to \$7,920.
- As of September 30, 2011 the 2009 Fee account had a balance of \$388. This balance included \$4 in additional interest earned on the account and additional service charges of \$4. The 2009 deficit of \$10,800 remains unchanged.

Criteria: KRS 134.160(2) requires the Sheriff shall keep an accurate account of all moneys received by him, and all disbursements made by him.

Per Funk v. Milliken, 317 S.W.2d 499(KY1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature.

Cause: Commingling of fee monies with other public funds, failing to maintain documentation supporting necessity and reasonableness, and spending in excess of revenues.

Effect: When fee monies are commingled with other public funds the possibility of overspending all funds increases. By expending more funds than awarded or expending funds on disallowed expenditures; the reports submitted by the Sheriff for external purposes are inaccurate. Additionally, the Sheriff is required to deposit personal funds to cover these expenditures.

Recommendation: We recommend the Sheriff deposit personal funds to eliminate the deficits in the 2008 and 2009 official fee accounts. We further recommend the Sheriff take immediate steps to ensure all monies spent are for allowable expenditures only.

Sheriff's Response: These funds were approved By Fiscal Court as allowed expenses by the Fiscal Court. The County Attorney is in the process of taking care of this issue.

Auditors' Response: The fiscal court's determination of allowability does not affect the auditor's report. The Sheriff will owe these amounts until depositing personal funds to eliminate them.

LESLIE COUNTY
 PAUL HOWARD, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2010
 (Continued)

NONCOMPLIANCES (Continued)

2010-11 The Sheriff Should Properly Account For Federal Forfeiture Funds By Accounting For Receipts And Expenditures

Condition: The Sheriff did not deposit federal forfeiture funds into a separate bank account; but instead deposited them into the 2010 fee account in a line item named Federal Grants, where Lake Duty proceeds were coded. The Sheriff did not properly account for the related expenditures for these receipts.

Criteria: According to "The Guide to Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies" from the U.S. Department of Justice, the Sheriff should establish a separate revenue account for the proceeds from the disposition of federal sharing proceeds. No other funds may be included in this account. In order to achieve this requirement, the Sheriff should establish a separate bank account so he can properly track federal forfeiture activity. In addition, he should implement internal controls over receipts and expenditures of the federal forfeited funds to ensure forfeited funds are properly accounted for when received and expended in accordance with guidelines and court orders.

Cause: The Sheriff did not properly segregate federal forfeiture assets from Fee Account monies.

Effect: There is no way to tell if the Sheriff properly spent federal monies.

Recommendation: We recommend the Sheriff properly account for federal forfeiture funds in the future by depositing them into a separate bank account and by implementing strong controls over the federal forfeiture receipts and expenditures. We further recommend the sheriff ensure that future expenditures are within the guidelines and court orders relating to the forfeitures.

Sheriff's Response: These funds were spent properly to purchase Vehicles from the City of Hyden, which was an allowable expense.

Auditors' Response: A separate bank account should have been maintained as required.

2010-12 The Sheriff Should Not Dispose Of Seized Property Until Awarded By The Court

Condition: During calendar year 2010 the Sheriff seized a 2009 Ford Expedition, 2009 Mercury Cougar, CBR 600 Honda, Cannondale Cannibal ATV, Yamaha Motorcycle, and a Lifan Motorcycle. Auditor's asked to view the Cannondale Cannibal ATV and the Sheriff stated that upon the time of the seizure these items were towed, and the Cannondale Cannibal ATV, which was just a frame, was remitted to the person towing the property in lieu of payment.

Criteria: Per KRS 218A.415(2)(a)(b) the Sheriff may take custody of and remove property seized to an appropriate location for disposition in accordance with the law. Once disposition is ordered; then the Sheriff may retain the assets for official use or sell that which is not required to be destroyed by law.

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COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

NONCOMPLIANCES (Continued)

2010-12 The Sheriff Should Not Dispose Of Seized Property Until Awarded By The Court
(Continued)

Cause: Confiscated items are not awarded to the Sheriff's office until disposition is ordered by a court. Items should not be sold or otherwise disposed of until on or after that date.

Effect: If the court had decided that the assets noted above were to be returned to the defendants, the Sheriff would have had to return the property.

Recommendation: We recommend the Sheriff segregate all seized assets and ensure they remain on hand until they are awarded to the Sheriff's department.

Sheriff's Response: We protest this finding. This property was awarded to the SO in 2010 & were not sold or transferred until they were awarded By the Court.

Auditors' Response: The Sheriff's response contradicts what auditors were told during fieldwork. There is no documentation to substantiate the Sheriff's assertion.

